



HAMPSTEAD AREA WATER COMPANY, INC

DW 10-241

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June 28, 2011

Mark Naylor
State of New Hampshire
Public Utilities Commission
21 S. Fruit Street
Concord, NH 03301



Re: Debt to Equity Ratio

Dear Mark,

This letter is being written pursuant to the Commission's order no. 25,195 for HAWC to provide a report to the Commission on HAWC's debt to equity ratio.

In September 2010 HAWC submitted a petition to the PUC in DW 10-241. In this petition HAWC's debt to equity ratio was projected to be 88:12. The actual debt to equity ratio as of 12/31/10 per the 2010 Annual Report is 84:16. The historical debt to equity ratios for the Company are as follows:

2010	84:16
2009	87:13
2008	110:(10)
2007	110:(10)
2006	113:(13)
2005	125:(25)
2004	128:(28)
2003	175:(75)

As you can see the Company went from a negative debt to equity ratio in 2003 of 175:(75) to a positive ratio of 84:16 in 2010. There were two main reasons for this improvement:

The first were general rate increases approved in 2006 (DW05-112) and in 2009 (DW 08-065). The increases in rates results in increased revenue, net income and retained earnings. The increase in retained earnings has a positive impact on the debt to equity ratio.

The second reason was the Additional Paid in Capital contributed by Peter Lewis and Christine Lewis Morse. The total contributed to date is \$2,104,354. A breakdown by year is:

08/09	\$990,953
11/07	\$ 35,000
12/05	\$225,000
12/04	\$300,000
12/03	\$450,000
Prior to 2003	\$103,401

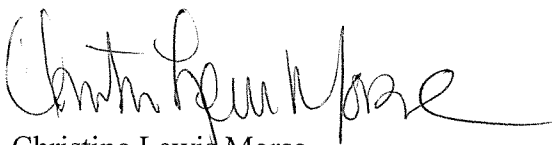
In addition to the above items HAWC has not borrowed all the money approved by the Commission in recent petitions and continues to pay on the existing long term debt, both of which are factors in reducing the debt to equity ratio.

As can be seen by all the factors stated above the ownership of HAWC has shown a willingness to contribute money to HAWC when it has been needed. Currently the Company is profitable and has been paying all its bills and notes on time. HAWC also recently negotiated with TD Bank to reduce the interest rate it is charging on an existing loan with HAWC. The petition for the approval of this reduction in rate is pending with the PUC. The current balance on the loan is approximately \$1,380,000. This reduction in the interest rate will have a positive impact on the debt to equity ratio.

The Company is preparing to file a petition with the PUC to refinance with TD Bank approximately \$750,000 in loans owed to Lewis Builders and have TD Bank provide the financing of \$450,000 on the Settlers Ridge project (DW 10-241). The loan terms offered by TD Bank are better than the current loan terms with Lewis Builders. In addition to reducing the interest rates on these loans the money will allow Lewis Builders to provide additional funds to HAWC if and when the funds are needed, similar to what was done two year's ago as approved by the commission.

Please contact me if you have any questions.

Sincerely,



Christine Lewis Morse
Vice President